MUNICIPAL DEVELOPMENT PROGRAM III

(UR-0111)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	The Eastern Republic of Uruguay
EXECUTING AGENCY:	Oficina de Planeamiento y Presupuesto [Planning and Budget Office] (OPP)

AMOUNT AND SOURCE:

IDB:	US$54.6 million (70%)
Local counterpart funding:	US$23.4 million (30%)
Total:	US$78.0 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	25 years
Grace period:	5 years
Disbursement period:	5 years
Term for physical start-up of work:	3 years 9 months
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.5%
Currency of the loan:	U.S. dollars

OBJECTIVES: The central objective of the program is to increase the efficiency of Uruguay's departmental governments by consolidating them as decentralized governing institutions which can promote local development. The specific objectives are: (a) to strengthen the technical, financial and city-works-and-services management capabilities of departmental governments, and (b) to attend to the most pressing needs of departments in the interior for investment in municipal works and services.

DESCRIPTION: To attain its objectives, the program will finance projects for investment in urban development and institution-strengthening in the 18 departments of the country's interior. The program is divided into two components: (a) an **institution-strengthening** component (US$6.5 million), to finance administrative and financial management systems and training in the departmental governments and intermunicipal cooperation projects; and (b) an **investment projects** component (US$60 million), to fund projects in the sectors of barrio improvement, urban streets and roads, drainage, sanitation and city services, in addition to promoting productive activities.

Inasmuch as this will be the last operation the Bank will be financing that will entail nonreimbursable transfers to municipalities, provision has been made in the program for a study on municipal government functions, and alternatives for funding local investments.

The program will require each departmental government to submit a strategic development plan, as an instrument to guide investment decisions toward a package of cohesive objectives. These plans, which are drawn up by each government in consultation with representative sectors of the local community, emphasize the forging of a shared vision as to local economic potentialities and a dovetailing of public- and private-sector efforts.

As a means of furthering the objectives of the program, funding for the investment component will be allocated in two stages. In a first phase, 70% of the funds for investments will be distributed on the basis of department size and population. The remaining 30% will be allocated at a second stage, to reward departmental governments that have attained the targets with respect to (a) real increases in own resources; (b) reductions in personnel costs; (c) increases in investment spending; and (d) implementation of cost-control systems.

ENVIRONMENTAL CLASSIFICATION: The Environment Committee has classified this as a Category III operation. On October 8, 1996, the Committee approved the program's environmental summary, which was forwarded to the Public Information Center on October 16, 1996.

BENEFITS: Investments under the program are designed to help improve the quality of life for some 350,000 residents of the country's interior. Of these, approximately 175,000 are members of households with unmet basic needs (UBNs), the total number of such households in the interior being 550,000. This is estimated to represent at least a 20% reduction in the number of households with UBNs as a result of barrio improvement, sanitation and other program investments which will improve housing and health conditions of the population with UBNs.

By means of actions such as those seeking to improve physical conditions and infrastructure in urban centers, and proactive local development planning efforts on the part of municipal governments, it is hoped to create an enabling environment for private investment and, accordingly, promote development in departments in the interior.

The efforts to make the management of departmental governments more efficient will help boost their own resources, narrow any fiscal deficits, bolster their public-works investment capacity, and improve the quality of local urban services.

RISKS:

Experience under earlier programs suggests the importance of due attention to difficulties encountered in implementation, particularly as regards procedures pertaining to tendering and construction in departmental government projects. A number of measures have been adopted to minimize the risk of problems: (a) standard bid documents will be used in the procurement of goods and services under the program; (b) the executing unit will be responsible for providing technical assistance in the preparation of all bid documentation (primarily for international tendering); (c) all contract awards exceeding prescribed discretionary limits will require the Bank's approval; and (d) technical supervision for a project must be commissioned before the contract for the project is awarded.

Whenever funds are expended for institutional strengthening, there is always a risk that the outcomes could be compromised by changes in management, weak technical capacity, or replacements of local officials or scant interest on their part. To counter these risks, provision has been made for contracting integrated administrative and financial systems, including their implementation, start-up and requisite staff training. It is expected that, once the new administrative, financial and tax systems have been set in place as part of the institutional operating structure, it will be easier to ensure their continued use. The same holds true with respect to decision-making practices through planning processes and technical appraisal of projects, both of which have begun with the program and are now widely used locally.

SOCIAL CLASSIFICATION AND POVERTY-TARGETING:

Pursuant to the Eighth Replenishment document (AB-1704, paragraph 2.13), it has been determined that the proposed program qualifies as an operation seeking social equity and poverty reduction, inasmuch as the planned investments in basic sanitation and barrio improvement will benefit the population with unmet basic needs and thereby help to reduce the UBN index by 20%. Since the urban infrastructure projects will benefit all municipal residents, irrespective of their income levels, the program cannot be classified as poverty-targeted in the terms of paragraph 2.15 of the Eighth Replenishment document.

EXCEPTIONS TO BANK POLICY:

a. Given the number, geographic diffusion and small size of the projects involved, it is proposed that all small-scale procurements be supervised by the Bank ex post. Supervision in this fashion would be applicable to construction projects for amounts equivalent to US$500,000 or less and to procurement of goods for US$50,000 or less (paragraph 3.20).

b. In view of the prompt and effective support provided by the United Nations Development Programme (UNDP) in the selection and hiring of consulting services for the earlier programs, which expedited processing arrangements, it is recommended that, as an exception, the executing agency be authorized to renew the present contract with UNDP. The services would include recruitment of consultants for implementation and technical oversight of the program, at a total cost of US$3.3 million. UNDP would charge 3.5% of that sum as its administration fee, which would be financed with local counterpart funds.

THE BANK'S COUNTRY AND SECTOR STRATEGY:

The Bank's strategy in Uruguay has three primary objectives: (i) to support a deepening of structural-reform efforts in the public sector, notably the reform of social security and the workings of government (to rationalize public spending and achieve fiscal balance); (ii) to support initiatives aimed at creating a better climate for the growth of private investment and recovery of competitiveness, including funding for basic infrastructure; and (iii) to support efforts to increase the supply and improve the quality of social services (in particular, education, health and sanitation).

In regard to the first objective, the proposed program would complement efforts under other Bank programs by supporting measures for the rationalization of public spending and balancing of departmental government budgets. In pursuit of the second objective, the program emphasizes exploration of the economic potential of departments and the creation of an enabling environment for private business to prosper, by endowing towns and cities in the interior with basic infrastructure. The investments to be funded by the program in the city services and sanitation infrastructure sectors, with the quality improvements being sought by instituting procedures for the technical and economic appraisal of projects, would contribute toward the third objective.

SPECIAL CONTRACTUAL CONDITIONS:

The first disbursement is contingent upon prior performance, to the Bank's satisfaction, of the following obligations by the borrower: (a) that the executing agency be operating with the agreed-on staff and characteristics; (b) that the Bank has received the model participation agreement for departmental governments and the OPP; and (c) that the program's Operating Regulations agreed upon in advance with the Bank have been put into effect (paragraph 3.2).

Other special conditions have to do with (a) performance of a midterm review to examine the progress of the program and take corrective action where needed (paragraph 3.23); (b) adequate maintenance of the works and services financed by the program (paragraph 4.10); and (c) hiring of consultants for external monitoring of the program (paragraph 3.21).

PROCUREMENT OF GOODS, WORKS, AND SERVICES:

Thresholds above which international competitive bidding will be required are US$250,000 for goods and contracting of associated services, and US$2,000,000 for construction work. Procurements for lesser amounts will be tendered in accordance with Uruguayan law, adhering to procedures that are consonant with the Bank's procurement policies (paragraph 3.18).